

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)
)
Petition for Rulemaking to Amend)
Part 32 of the Commission's Rules,) RM 8448
Uniform System of Accounts for)
Class A and Class B Telephone)
Companies to Increase the Dollar)
Limit for Expensing the Cost of)
Individual Items of Equipment)

REPLY COMMENTS OF SOUTHWESTERN BELL TELEPHONE COMPANY

Southwestern Bell Telephone Company ("SWBT"), by its attorneys and pursuant to Commission Rule 1.405(b),¹ respectfully submits its Reply Comments in the above-captioned proceeding regarding the United States Telephone Association's ("USTA's") Petition for Rulemaking ("PFR"). USTA's PFR proposes that the Commission amend Part 32 of its rules to increase the expense limit of certain individual items of equipment from \$500 to \$2,000 and that the Commission permit exchange carriers to amortize the previously capitalized undepreciated investment over a three-to-five year period beginning January 1, 1995 or, at the exchange carriers' option, January 1, 1994. Both proposals have justifiably received near unanimous support² and should be implemented despite a lone dissenter's unsupported objections.³

¹ 47 C.F.R. Section 1.405(b).

² See, Comments of ALLTEL Service Corporation ("ALLTEL"), the Ameritech Operating Companies ("Ameritech"), the Bell Atlantic Telephone Companies ("Bell Atlantic"), BellSouth Telecommunications, Inc. ("BellSouth"), Pacific Bell and Nevada Bell, Roseville Telephone Company ("Roseville"), and U S West Communications Inc. ("U S West").

³ Comments of MCI Telecommunications Corp. ("MCI")

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I. THE RECORD CLEARLY SUPPORTS USTA'S PROPOSALS.

All commentators except MCI agree that implementing USTA's proposals would benefit both carriers and their customers. These commentators have identified three specific benefits:

- The increased expense limit would reduce administrative and recordkeeping costs associated with maintaining detailed property records on low-cost, high-volume items of equipment.
- The current expense limit is no longer realistic in an increasingly competitive telecommunications environment.
- Permitting carriers to amortize the previously capitalized undepreciated investment over a three-to-five year period would ensure implementation on a revenue-neutral basis.⁴

As the Commission itself has recognized, significant administrative efficiencies can be achieved by expensing some low-value items, instead of capitalizing them and carrying them in the ratebase, with the attendant continuing property record requirements.⁵ SWBT agrees with Roseville's and others' comments that the carriers' ability to pass these efficiencies along to

⁴ ALLTEL, at 1-2; Ameritech, at 1-2; Bell Atlantic, at 1-2; BellSouth, at 2; Pacific Bell and Nevada Bell, at 2-4; Roseville, at 2-3; U S West, at 2-4.

⁵ Revision to Amend Part 31, Uniform System of Accounts for Class A and Class B Telephone Companies as it related to the treatment of certain individual items of furniture and equipment costing \$500 or less, 3 FCC Rcd 4464, para. 14 (1988).

subscribers would place LECs on a more level playing field with their competitors.⁶

Finally, SWBT agrees with U S West's observation that implementing USTA's proposal would further the Commission's goal of simplifying the depreciation process, as stated in Docket No. 92-296.⁷ Specifically, the change would reduce those administrative costs required to establish and maintain depreciation schedules for low-value items, and would minimize the depreciation reserve deficiency problems resulting from the use of unrealistic service lives.⁸

In view of this ample supporting record, the Commission should find that implementing USTA's proposals would serve the public interest.

II. MCI's UNSUPPORTED COMMENTS SHOULD BE DISMISSED AS MERELY AN ATTEMPT TO GAIN AN UNFAIR ADVANTAGE OVER LECs.

MCI says it "remains very skeptical" that USTA's proposal would be implemented in a revenue-neutral manner.⁹ This self-serving comment is not supported by any details and ignores several contrary considerations.

First, amortization of previously capitalized undepreciated investment over the asset's remaining life would

⁶ Roseville, at 2; Bell Atlantic, at 2; Pacific Bell and Nevada Bell, at 3; U S West, at 1-2.

⁷ U S West, at 4, n. 6.

⁸ Id.

⁹ MCI, at 1.

ensure revenue neutrality.¹⁰ Second, USTA's PFR does not ask for increased rates to cover any increase in expenses incurred in the years immediately following implementation. In any event, this increase would be offset by decreased depreciation and administrative expenses caused by ceasing capitalization of the items.¹¹ Third, any increased expense limit would not be considered as exogenous under price cap regulation and, accordingly, would not cause any increased rates on that basis.¹² Finally, MCI's "skepticism" does not overcome, much less reach, all other commentators' statements that administrative costs would be reduced were USTA's proposal adopted.

Likewise unpersuasive is the notion that implementing USTA's proposal would reduce sharing amounts required to be flowed through to interstate access ratepayers. Certainly, the potential for sharing decreases as expenses increase. However, it is wrong to assume that the increase in expense sought by USTA will necessarily result in a reduction of amounts shared. Indeed, the shift to expense will cause an equal reduction in the net investment base used to calculate the sharing threshold. Thus, any negative one-time effect on the sharing calculation will be offset, if not overcome, by the clearly positive and permanent effect caused by a reduction of capital amounts.

Finally, MCI bemoans the alleged lack of competition for local access services. Yet, its claim is inconsistent with its

¹⁰ See, note 4.

¹¹ Pacific Bell and Nevada Bell, at 3.

¹² Ameritech, at 2; U S West, at 3.

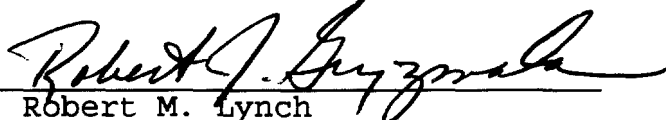
decision to soon begin offering alternative local telecommunications services in competition with SWBT and other LECs. In reality, MCI's comments on this point bespeak one of two things. Either MCI would have the Commission believe it is imprudently spending over \$2 billion to enter a non-competitive market, or MCI is selectively investing in the "cream" while claiming that what it would regard as the non-competitive remainder justifies denial of USTA's proposal. Neither of these alternatives is a legitimate argument supporting an alleged lack of competition. Therefore, MCI's complaints should be rejected.

III. CONCLUSION

Implementing USTA's proposals would help LECs reduce unnecessary regulatory burdens and administrative costs, without prejudice to ratepayers. For these reasons, SWBT urges the Commission to grant USTA's PFR.

Respectfully submitted,

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May 9, 1994

CERTIFICATE OF SERVICE

I, Katie M. Turner, hereby certify that the foregoing "Reply Comments of Southwestern Bell Telephone Company" in RM 8448 has been filed this 9th day of May, 1994.

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